



February 2006 Finance Report

Information Technology Investment Board Finance and Audit Committee April, 2006

This Finance Report covers the following topics:

- Fiscal Year 2006 Financial Results
- Year End Processing Guidance
- Memoranda of Understanding (MOU) With Agencies
- Legislative Budget Development
- IT Financial Benefits Update

Fiscal Year 2006 YTD Financial Results

February 2006 YTD Financial Results All Funds

	<i>FY 2006 Budget</i>	<i>February 2006 YTD Actual</i>	<i>Actual as a Percent of Budget</i>
Operating Revenues, including transfers in	\$295,689,670	\$187,534,597	63%
Expenses, including transfers out	<u>293,441,282</u>	<u>186,091,827</u>	63%
Net Change	2,248,388	1,442,770	
Retained Earnings, July 1	<u>54,110,505</u>	<u>54,110,505</u>	
Ending Retained Earnings	<u>\$56,358,893</u>	<u>\$55,553,275</u>	

Overall, financial activity in all funds through the first eight months of fiscal year 2006 is in line with expectations. VITA continues to process a large number of transactions on behalf of transitioned agencies, with almost 40% of revenue derived from direct billed services.

Through February, VITA prompt payment statistics indicate that 98.8 % of VITA's vendor payments were paid on time.

February 2006 YTD Financial Results Internal Services Fund

	<i>FY 2006 Budget</i>	<i>February 2006 YTD Actual</i>	<i>Actual as a Percent of Budget</i>
Operating Revenues, including transfers in	\$248,968,827	\$151,143,124	61%
Expenses, including transfers out	<u>246,567,038</u>	<u>146,990,649</u>	60%
Net Change	2,401,789	4,152,475	
Retained Earnings, July 1	<u>32,260,081</u>	<u>32,260,081</u>	
Ending Retained Earnings	<u>\$34,661,870</u>	<u>\$36,412,556</u>	

These funds represent the core of VITA's business and account for the majority of revenues and expenses, including telecommunications, computer services, and direct billed services.

Direct billed services activity continues to be the highest revenue producer for VITA, with almost \$67 million. But legacy computer services and telecommunications services also remain strong, with revenues of \$34 million and \$47 million, respectively. And although both revenues and expenses are slightly below targets as of February, year end activity in direct bill will likely eliminate the shortfall.

February 2006 YTD Financial Results Enterprise Funds

	<i>FY 2006 Budget</i>	<i>February 2006 YTD Actual</i>	<i>Actual as a Percent of Budget</i>
Operating Revenues, including transfers in	\$39,005,696	\$31,565,278	81%
Expenses, including transfers out	<u>39,005,696</u>	<u>34,521,613</u>	89%
Net Change	0	(2,956,335)	
Retained Earnings, July 1	<u>20,442,577</u>	<u>20,442,577</u>	
Ending Retained Earnings	<u>\$20,442,577</u>	<u>\$17,486,242</u>	

VITA's Enterprise Funds are comprised of the portal access program and E-911. Little activity has occurred in the portal access program since December, when VITA and Virginia Interactive signed an amendment to the contract, thereby changing the flow of funds and effectively eliminating VITA as the transfer agent. VITA now serves only as the administrator of the contract.

The Virginia Wireless E-911 Services Board promotes and assists in the development, deployment, and maintenance of enhanced wireless emergency telecommunications services and technologies. Budgeted YTD revenues of almost \$29 million are derived from surcharges assessed against wireless users; as of February, over \$30 million has been paid

out to E911 providers. A pending appropriation increase to E-911 funds will bring actuals and budget into the expected range.

February 2006 YTD Financial Results General Fund

	<i>FY 2006 Budget</i>	<i>February 2006 YTD Actual</i>	<i>Actual as a Percent of Budget</i>
Operating Revenues, including transfers in	\$3,085,700	\$1,550,443	50%
Expenses, including transfers out	<u>1,241,187</u>	<u>1,550,443</u>	125%
Net Change	0	0	
Retained Earnings, July 1	<u>0</u>	<u>0</u>	
Ending Retained Earnings	<u>\$0</u>	<u>\$0</u>	

The general fund is used primarily to fund the activities of the Strategic Management Services directorate. The amounts shown above reflect the already-executed \$1.6 million appropriation transfer out for savings from information technology and telecommunications operating efficiencies.

The executive budget (HB/SB 29) proposes deferring this general fund reduction until FY 2007 and VITA anticipates this appropriation will be "made whole" when the legislature acts to approve a new budget.

February 2006 YTD Financial Results Special Revenue Funds

	<i>FY 2006 Budget</i>	<i>February 2006 YTD Actual</i>	<i>Actual as a Percent of Budget</i>
Operating Revenues, including transfers in	\$3,880,000	\$4,208,695	108%
Expenses, including transfers out	<u>4,033,401</u>	<u>2,765,965</u>	69%
Net Change	(153,401)	1,442,730	
Retained Earnings, July 1	<u>1,165,722</u>	<u>1,165,722</u>	
Ending Retained Earnings	<u>\$1,012,321</u>	<u>\$2,608,452</u>	

Special Revenue Funds are primarily comprised of funding for the IFA, PPEA, GIS, and Virginia Technology Infrastructure with year to date fund balances totaling \$2,600,000. The only area with any notable activity was the Industrial Funding Adjustment (IFA) account. Revenues for the IFA are the result of contractual payments made by the state's information technology vendors. This account funds general government activities, including support to the Governor's Office that should not be billed to state agencies and other customers.

February 2006 YTD Financial Results Federal Funds

	<i>FY 2006 Budget</i>	<i>February 2006 YTD Actual</i>	<i>Actual as a Percent of Budget</i>
Operating Revenues, including transfers in	\$950,000	\$617,500	65%
Expenses, including transfers out	<u>1,192,125</u>	<u>263,156</u>	22%
Net Change	(242,125)	354,343	
Retained Earnings, July 1	<u>242,125</u>	<u>242,125</u>	
Ending Retained Earnings	\$0	\$596,468	

As expected, VITA received the first \$617,500 drawdown against a \$950,000 Homeland Security Grant. VITA has already committed or expended all of the funds drawn down and expects to spend the entire \$950,000 provided by the end of the fiscal year.

Year End Processing Guidance

In mid-March VITA issued year end processing guidance to its customer agencies. This guidance is designed to assist agencies that want to expend FY 2006 funds prior to June 30th by providing deadlines that must be met to ensure that VITA can process payments for goods and services in time to render an early bill to agencies which can be paid prior to the June 30th cutoff.

Similar guidance was issued in FY 2005. As a result, almost 40% of direct billed services revenue was earned in the final two months of the fiscal year. Likewise, almost \$65 million in cash was collected in that two month period, compared to average cash collections in previous months of about \$13 million.

Memoranda of Understanding With Agencies

By the end of March 2006 fifty-six (56) agencies and VITA have fully executed Memorandums of Understanding for personal services (Phase 1). Seven (7) MOU's are in the final stages of negotiation with agency heads and cabinet officials. Taken together these sixty-three documents cover VITA provided services for all ninety (90) Executive Branch agencies.

Centralizing the purchasing of IT goods, products, and services supports IT infrastructure transformation and consolidation, as well as stabilizes funding to meet cost obligations of the contractual agreement with Northrop Grumman. This next step in the transformation process will further facilitate consolidation and sharing of resources (both personnel and non-personnel) while allowing customers to focus on their need for services that support their core businesses rather than purchasing component parts to build and maintain the IT infrastructure.

As of March 1, 2006, all customer agencies covered by the MOU process (56 + 7) are being billed for monthly labor costs (Phase 1) in equal increments. Phase 2, non-personal service MOU's, is now under development, and is expected to be in place for billing purposes beginning July 1. In preparing phase 2 agreements, VITA is building upon the MOU chargeback methodology of phase 1 by adding fixed monthly fees to cover the cost of IT infrastructure goods and services. These include customer agency spending for IT goods

and external (non-VITA) services such as servers, desktops, network devices, software, maintenance renewals and seat management contracts.

VITA anticipated customer concerns on the transition from direct bill to a fixed monthly fee and regionalization of VITA's IT work force, with its blending of staff that was formerly dedicated to a single customer. Accordingly, customer agency financial managers were invited to attend work sessions at VITA to share any MOU-related federal funding issues potentially affecting them and/or other agencies. Interest and participation were high, and the issues identified have been aggregated, analyzed, and are being discussed with the responsible federal government grants managers.

Legislative Budget Development

The FAC Finance report for February 2006 described Governor Warner's proposed Budget, as introduced, Governor Kaine's executive amendments and proposed legislative member amendments affecting VITA's current year and the 2006-08 biennial budget. On February 21, the legislative amendments proposed by the House Appropriations and Senate Finance Committees were published. The following are additions, reductions or adjustments to the Budget Bill as introduced affecting VITA as adopted by the House and Senate:

MONEY COMMITTEE AMENDMENTS SUMMARY -- 2006 SESSION

HOUSE APPROPRIATIONS COMMITTEE				SENATE FINANCE COMMITTEE			
<u>HB/SB 30</u>							
<u>Item #</u>	<u>Amendment</u>	<u>2007</u>	<u>2008</u>	<u>Item #</u>	<u>Amendment</u>	<u>2007</u>	<u>2008</u>
421#1h	ISF for VBMP		Language				
426#1h	Elim Agcy Hd advisory		Language	426#1s	Cap lease \$ cap		
				426.10#1s	EA PPEA Proj Ofc	5,293,908	9,293,908
460#1h	EA PPEA Proj Ofc	(12,792,564)	245,287	460#1s	Red EA PPEA \$\$	(18,086,472)	(9,048,621)
462#1h	Complete base map up	1,145,485	(485,000)	462#3s	Complete base map up	1,145,485	(485,000)
462#2h	QA base map update	542,500	0				
4-5.03#1h	Elim Gov ISF approval		Language	4-5.03#1s	Elim Gov ISF approval		Language
<u>HB/SB 29</u>							
<u>Item #</u>	<u>Amendment</u>	<u>2005</u>	<u>2006</u>	<u>Item #</u>	<u>Amendment</u>	<u>2005</u>	<u>2006</u>
-	-			468.20#1s	EA PPEA Proj Ofc		471,788
503.10#1h	EA PPEA Proj Ofc	0	(2,842,212)	503.10#1s	Red EA PPEA \$\$	0	(3,314,000)

The 2006 General Assembly schedule called for publication of the budget conferees' recommendations on March 9 with final vote and adjournment on March 11. As the two houses reached an impasse on transportation funding and other Budget issues, the General Assembly adjourned without the final reports from the conferees required for voting to approve HB/SB 29 (the revised FY 2006 budget, known as the "Caboose Bill") and HB/SB 30 (the 2006-08 biennial budget, effective July 1, 2006).

Governor Kaine directed the General Assembly to reconvene on March 27 to resume budget deliberations. The budget conferees met in the interval between adjournment and the

reconvened session, but as of this writing they have still not achieved consensus. Some of the critical impacts on VITA until a Budget Bill is enacted include:

HB/SB 29:

- Finalizing the agreement with Northrop Grumman—Execution of the contract is dependent upon General Assembly passage of this Budget Bill and the Governor's subsequent signature. Fully implementing the integration of NG and VITA may be delayed. Affected areas include, but are not limited to, the official offer of NG employment to in-scope VITA employees; the planned schedule of construction for the Chesterfield Enterprise Operations Center; and identification of the scope and impact of on the agreement of potential capital leases for IT assets to be acquired by Northrop Grumman.
- Reinstating general fund appropriations earmarked for IT savings—The Governor's budget proposes restoring to VITA in FY 2006 \$1.6 million GF that Chapter 951 eliminates. The current Appropriation Act removed this funding from VITA's budget with the expectation that customer agencies can achieve sufficient GF savings in IT infrastructure to allow the replenishment of VITA's appropriation. It was subsequently determined however that much of the savings are protected (e.g. attributable to procurement savings of the VaPP program managed by the Department of General Services) or related to savings to local, rather than state, government entities.

HB/SB 30:

- Completing the Virginia Base Map update—In the current year, the initial phases of the base map update are funded (\$1M NGF; \$.5M GF). The Governor's proposed budget, with proposed increases included by the GA money committees' amendments, for FY 2007 would allow for finishing the new geospatial map of the Commonwealth and distributing it to state agencies, local governments, and other customers. VITA is currently contracting with a provider to begin the statewide orthophotographic flyover and processing of mapping information. Failure to pass the Budget Bill could adversely impact this contract, and delay the development of a product that is critical to homeland security, emergency response, transportation, and economic development.
- Providing VITA's customers GF assistance to pay for new services—The Joint Legislative Audit and Review Commission (JLARC) approved new rates for IT investment (project) management and security management services in December, 2005. As the Governor's biennial budget proposal assisted customer agencies by covering the general fund portion of the rate increase beginning on July 1, 2006. VITA is delaying implementation of the new rate charges until the beginning of the new fiscal year. If this Budget Bill is not passed, either these services will have to be deferred, or agencies will be billed without the benefit of the intended GF offset.

Please note that this discussion only addresses the most critical issues. Other VITA programs, such as E-911 and VGIN, and some desired language changes would also be adversely impacted if the budget bills are not passed.

IT Financial Benefits Update

In addition to their other attributes, infrastructure IT initiatives are projected to yield significant financial benefits (both cost savings and cost avoidances) to both the Commonwealth in general and specifically to state agency and locality customers. A summary is shown in the following table:

IT Financial Benefits/Savings (\$000)

	FY 2004	FY 2005	FY 2006 (Annual Est.)	FY 2006 (Est. YTD 7/06-12/06)
Cost Savings	\$15,858	\$29,544	\$26,000	\$13,721
Cost Avoidance	\$875	\$13,455	\$17,395	\$8,698
Total	\$16,733	\$42,999	\$43,395	\$22,419

The savings reported here represent contract rate reductions and discounts. The primary savings categories are telecommunications (Verizon and COVANET) and Virginia Partners in Procurement (VaPP). VaPP savings are for IT purchases (hardware, software, etc.).

The year-to-date cost saving figure included above is greater than the comparable figure in the most recent Quarterly Report due to the subsequent receipt of an additional month of data for VaPP IT procurements. The "FY 2006 (Est. YTD 7/06—12/06)" figures are preliminary. Reporting on cost saving and cost avoidance data typically lags up to several months, and further adjustments may occur.